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In the Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

BRIEF OF REMBRANDT IP MANAGEMENT, LLC AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

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BRIEF OF REMBRANDT IP MANAGEMENT, LLC AS *AMICUS CURIAE* IN SUPPORT OF RESPONDENT

INTEREST OF THE *AMICUS CURIAE*[1]

Rembrandt IP Management, LLC ("Rembrandt") is a non-practicing entity ("NPE")—a firm that invests in patents but does not practice them. *Amicus* and other NPEs help inventors and other patent owners—typically individuals and smaller companies—realize the value of their inventions, something they otherwise could not do.

Rembrandt, based in Bala Cynwyd, Pennsylvania, specializes in enforcing patent rights against infringers. Rembrandt shares a significant percentage of the revenues it earns from license agreements and litigation with the inventors whose intellectual property rights the firm enforces. Accordingly, the firm serves, in the words of one commentator, as an intermediary "to exploit the value of patents that cannot be exploited effectively by those that have originally obtained them."[2]

As will be explained in more detail below, *amicus* and other NPEs play a valuable role in a system of free enterprise in which all property rights, including intellectual property rights, are (and must remain) freely tradable. NPEs allow inventors to concentrate on inventing while the NPE realizes the value of the patent through licensing and enforcement. Similarly, when they purchase patents outright from inven-

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[1] All parties have consented to the filing of this brief. The parties' letters of consent have been lodged with the Clerk of Court. Pursuant to Rule 37.6, *amicus curiae* states that no counsel for a party has written this brief in whole or in part, and that no person or entity other than *amicus* or its counsel made a monetary contribution to the preparation or submission of this brief.

[2] Ronald J. Mann, *Do Patents Facilitate Financing in the Software Industry?*, 83 TEX. L. REV. 961, 1024 (2005).

tors, NPEs function as market-makers—the inventor is immediately compensated and motivated to continue inventing, while the NPE undertakes to ensure that the invention is appropriately valued in the market.

Amicus is interested in this case because its functions, like the value of the rights it enforces, depend on courts' adherence to a sound and longstanding principle: Whether a patent holder practices the patented invention is irrelevant to whether the holder is entitled to injunctive relief for infringement. Because petitioners have drawn this principle into question—and because the district court impermissibly departed from this principle—*amicus* will explain why the Court should not alter or abandon this longstanding precedent in considering the standards for granting an injunction to remedy patent infringement.

SUMMARY OF ARGUMENT

A number of the arguments made by petitioners and their *amici*—and ultimately the analysis of the district court below—rest on a series of misconceptions about the workings of patent law, economics, and the role of non-practicing entities, or NPEs. The purpose of patent law is to promote progress by creating the proper incentives for invention and public disclosure. The mechanism for achieving these results is to create a property right in the invention. For property rights to achieve their full value, they must be freely tradable and must not be enforceable in different ways depending on a court's subjective evaluation of the use the holder is making of the right.

NPEs further the purposes of patent law. They help level the playing field for patent enforcement, and allow inventors to do what they do best—invent—while leaving to the NPE the risks and potential additional rewards of developing the value of their inventions in the marketplace. NPEs, in short, function with respect to inventions both as venture capital firms and as market-makers, and facilitate the public disclo-

sure of invention, which is one of the patent system's primary functions.

The judgment of the district court, as well as the arguments of *amici* who take aim at NPEs, run contrary to common economic sense and violate the law of unintended consequences for actors upstream and downstream from the NPEs. If non-users alone are deprived of injunctive relief, then patents will be worth far less to NPEs like *amicus* Rembrandt, which means NPEs will pay far less for patents, which will greatly diminish independent inventors' and small companies' incentive to innovate. Moreover, it is not just NPEs that sue to enforce patents that they are not practicing—ordinary companies that manufacture and sell products do this on a regular basis. The proposals of some of petitioners' *amici* lead to the illogical result that, if one such company were to acquire Rembrandt's patent portfolio, that company would be entitled to an injunction, even though the same patents in Rembrandt's hands would be protected only with money damages. Furthermore, a test of whether the plaintiff is using the patent would make patent litigation even more complicated and expensive than it already is.

More generally, any regime of compulsory licensing—which is what petitioners and their *amici* ask for, at least as regards NPEs—is a regime in which inventors are undercompensated, intellectual property is misvalued, and infringement and litigation are routine, as well-funded actors find it more worth their while to infringe and pay limited damages later than to negotiate with a patent-holder now. Another problem is that, without an injunction, the patent-holder is forced to accept a court-imposed royalty. But private parties, not courts, are in the best position to set royalty rates and terms. The complaints of petitioners and their *amici* about the "unfair" leverage created by an injunction really boils down to a complaint about the price of infringing independent inventors' and smaller entities' intellectual property.

not a principled position about the nature and value of patent rights.

In the case before the Court, the question is not *whether* the district courts have discretion in determining the remedy for patent infringement, but rather what standards inform and limit that discretion.

A crucial standard—one that the district court abused its discretion by ignoring—is that the use a patent-holder is making of the invention does not affect the remedy to which it is entitled. This principle is articulated clearly in *Continental Paper Bag Co.* v. *Eastern Paper Bag Co.*, 210 U.S. 405 (1908), and its progeny. *Continental Paper Bag* is not merely a 98-year-old precedent of this Court; it is also effectively part of the injunction statute. Congress has reenacted the injunction provision numerous times since 1908, and in each reenactment is presumed to have incorporated judicial constructions of the provision. Moreover, for the first half of the last century, Congress repeatedly returned to the question whether non-users should be subject to a compulsory license. Each time Congress revisited the issue, it left in place the rule that non-use does not deprive a plaintiff of injunctive relief.

Ultimately, the suggestions of petitioners' *amici* that courts impose a unique penalty on NPEs are really a demand to make infringement less expensive for well-funded actors and a call to legislate about issues not presented by this case. The *amici* contend that many patents are vague or of poor quality and that, in the technology sector, products and services touch on numerous patents, creating the risk of "hold-up." Whether or not those are real issues—we contend they are not—they are not for this Court to decide in this case. eBay has been adjudicated a willful infringer of MercExchange's valid patents. Those findings are not challenged here. The courts have many tools for dealing with vague or low-quality patents, and in any case systemic critiques are best directed to the Legislative and Executive Branches. The

attacks on NPEs leveled by *amici* dissatisfied with aspects of the patent system not implicated by this case present no good reason to use this case to tinker with the remedy for infringement.

ARGUMENT

I. NON-PRACTICING ENTITIES PLAY A KEY ROLE IN A SYSTEM DESIGNED TO PROMOTE PROGRESS BY PROTECTING INVENTION

A. The American economy is driven by innovation, and innovation is greatly facilitated by strong patent protection. By allowing private ownership in inventions, the patent system creates an incentive to invent. Without patent protection, many would-be inventors either would not bother to invest time, effort, and money in creating inventions, or would not disclose their inventions to the world. The exclusive property right created by the patent has several public benefits. It assures the inventor compensation for the work of successful invention. It allows the inventor to disclose the invention to the public and to potential investors without the fear of unlicensed imitation or appropriation. And it encourages investors—which could be the patent-holder himself, his licensees, or outside financiers—to risk capital in bringing the invention to market. Without the incentives and protections afforded by the patent grant, far fewer inventions would be disclosed to the world in the same timeframe.

None of these critical functions could be performed effectively if the patent right, like any property right in a capitalist system, were not freely transferable. As this Court has explained, "[p]ermitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention." *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979). The person best at coming up with new devices and processes is not necessarily the person with the capital,

know-how, or access to bring those ideas to the market. See, *e.g.*, *A Market for Ideas*, ECONOMIST, Oct. 22, 2005.

The clearest illustrations are professional independent inventors, many of whom depend on license agreements with manufacturers to realize financial returns from their work. A great many people in the United States and other countries make a living, or seek to do so, by inventing. The phenomenon is by no means limited to celebrities of the late nineteenth century like Thomas Edison and Alexander Graham Bell. See, *e.g.*, Susan Chaityn Lebovits, *What's the Idea? They've Got It*, BOST. GLOBE, May 12, 2005, Globe West, at 1 (profiling successful Boston-area inventors and noting that "not all the area's Edisons began ensconced in ivory towers or gleaming office parks. Many started by toiling away in kitchens, basements, and temporary offices."); Meredith Cohn, *Big Ideas, Long Odds*, BALT. SUN, Oct. 29, 2004, at C1; Larissa MacFarquhar, *Looking for Trouble*, NEW YORKER, Dec. 6, 1999, at 78 (profiling David Levy, a former engineer for Apple Computer and now a professional inventor whose creations include a keyboard pad small enough for a cellular telephone).

Research universities, too, are generally are not equipped to manufacture and distribute products, but, encouraged by the Bayh-Dole Act of 1980,[3] many of them have set up active licensing programs to transfer to private industry the patented innovations that result from research performed in their laboratories. See, *e.g.*, Rebecca S. Eisenberg, *Public Research and Private Development: Patents and Technology Transfer in Government-Sponsored Research*, 82 VA. L. REV. 1663 (1996); Shira Boss-Bicak, *Moving Ideas off Campus*, N.Y. TIMES, Oct. 28, 2004, at C6.

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[3] Act of Dec. 12, 1980, Pub. L. No. 96-517, § 6, 94 Stat. 3015 (codified as amended at 35 U.S.C. §§ 200-211 (2005)).

Perhaps the most spectacular success story in modern times of an entity that develops patents without practicing them is QUALCOMM Incorporated ("Qualcomm"). Qualcomm, which was founded in 1985 as a start-up research and development firm for the emerging wireless telecommunications industry, today holds more than 3,900 patents and patent applications.[4] The company developed and distributed the "code division multiple access" (CDMA) technology on which many of the world's cellular networks are based today. Qualcomm now derives the vast majority of its revenue from two core businesses: licensing its patents, and designing—but not manufacturing—the microchips used in cellular telephones and other wireless devices. In fact, the company formerly manufactured telephones and network equipment, but eventually sold those businesses to concentrate purely on development and licensing. See Qualcomm et al. Cert.-Stage Br. 2; James Aley, *Heads We Win, Tails We Win*, FORTUNE, Mar. 3, 2003.

B. NPEs like *amicus* Rembrandt perform an important function. By specializing in the acquisition, licensing, and enforcement of patents, they promote both invention and disclosure of invention to the public, and ensure that intellectual property is appropriately valued and put to its best use.

Individuals and small entities are "a significant source of innovative products and services." WENDY H. SCHACHT & JOHN R. THOMAS, PATENT REFORM: INNOVATION ISSUES 10 (Congressional Res. Serv. July 15, 2005). Because of barriers to market entry and a disparity in bargaining power, however, independent inventors and smaller companies frequently are not well positioned to commercialize their inventions. That is where NPEs come in. Unlike inventors, NPEs specialize in valuation, licensing, and enforcement. An

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[4] See QUALCOMM History, *at* http://www.qualcomm.com/about/history.html.

inventor working with an NPE negotiates a license for its intellectual property the same way a well-funded large corporation does—with a credible threat of enforcement.

A small inventor or company not backed by an NPE typically has no hope of challenging a large corporation that is infringing the inventor's patents. Patent litigation is notoriously expensive, SCHACHT & THOMAS, *supra*, at 7-8, and presents ample opportunities for well-funded corporations to run the clock with an endless stream of motions and discovery requests. Frequently the litigation includes not just proceedings in the district courts but also parallel proceedings in the Patent and Trademark Office or the International Trade Commission, or both. It also lasts a very long time, which further tips the playing field against the inventor or small company.

Large companies have other advantages, too. Unlike small companies, they are well positioned to countersue for alleged infringement or anticompetitive practices, and they do not have to be as concerned as small companies with the destabilizing effects of litigation. For example, in the case of a small company, the infringer could be its major customer or supplier, which could make the small company incapable or unwilling to sue or defend against a countersuit. In short, with no NPE in the picture, a well-financed corporation can quickly exhaust the ability of a small inventor or company to protect its intellectual property.

NPEs also help inventors concentrate on doing what they do best. Many inventors do not want to get involved in licensing, especially because a successful licensing program can take years to establish. When an NPE purchases a patent or an exclusive license to it, the inventor is freed up to move on to the next project, while the NPE assumes for itself the risks and potential additional rewards of monetizing the intellectual property in the market.

NPEs benefit the public as well. Without NPEs, many inventions would never reach the market. Some inventors would not have the time, support, and incentive to come up with them. Other inventors that did come up with inventions would not bother to patent or license them. NPEs thus facilitate the disclosure of invention that is one of the key features of the patent bargain. Indeed, NPEs have every incentive to make inventions available to the public. Precisely because they do not manufacture or sell products, NPEs must enter into license agreements with others. Actually enforcing the exclusivity conferred by the patent grant would simply deprive the NPE of any revenue.

As a number of observers have noted, ideas have become a key raw material of the information economy. See, *e.g.*, *The Liquidity of Innovation*, ECONOMIST, Oct. 22, 2005. In fact, intellectual property is becoming an increasingly liquid asset. Some private investment funds, for instance, are acquiring portfolios of patents. See Jason Kirby, *Patent Troll or Producer? The Evolution of Intellectual Property*, FIN. POST, Jan. 14, 2006; *Voracious Venture*, ECONOMIST, Oct. 22, 2005. This spring a firm will hold what is believed to be the first live patent auction. See Don Clark, *Inventors See Promise in Large-Scale Public Patent Auctions*, WALL ST. J., March 9, 2006, at B1; Michael Orey, *A New Invention for Investors*, BUS. WEEK, Feb. 2, 2006. In short, "a secondary market is emerging for intellectual property acquired by individuals and corporations not involved in the original inventions." John Markoff, *Secretive Buyer of Some e-Commerce Patents Turns Out To Be Novell*, N.Y. TIMES, May 2, 2005, at C3.[5] In that secondary market, NPEs serve both as inves-

[5] Indeed, at least one observer has taken these developments to their logical (if perhaps impractical) conclusion and proposed that patents be securitized and traded publicly, just as real estate and mortgage debt now are. Elizabeth D. Ferrill, *Patent Investment Trusts: Let's Build a Pit to Catch the Patent Trolls*, 6 N. C. J. L. & TECH. 367 (2005).

tors and as intermediaries, ensuring that intellectual property is appropriately valued and that it comes to rest in the hands of those best able to use it.

C. The preceding discussion should show why the criticism of NPEs leveled by a number of *amici* is so misguided. Yahoo! Inc. ("Yahoo"), for example, criticizes so-called "patent trolls" for "engag[ing] in behaviors that will increase the *settlement* value of . . . patents without adding anything of *societal* value." Yahoo Br. 20. But creating "settlement value" for intellectual property is precisely why we have a patent system. Without strong patent protection—without, that is, the requirement, enforceable only through litigation or the threat of litigation, that one *purchase* rights to a patented invention before making, using, or selling it—there would be less incentive both to invent and to disclose inventions publicly. The "societal value" that Yahoo, other *amici*, and the district court have failed to see here is the innovation stimulated by a system that rigorously protects inventions, regardless of whether they are created by a large actor or a small one.

Petitioners and their *amici*—which for the most part are, or represent the interests of, enormous corporations with vast resources—complain about the supposed "unfair leverage" created by injunctions. *E.g.*, Bus. Software Alliance et al. Br. 9. Petitioners' *amici* insist that injunctions result in license fees far in excess of the patented invention's "actual value." *E.g.*, Am. Innovators' Alliance Br. 8. Petitioners' *amici*, however, offer no data to support their positions. In any case, the "actual value" of an invention is what it is worth to the parties bargaining over it, and the leverage created by an injunction is precisely the point. See, *e.g.*, *Smith Int'l, Inc.* v. *Hughes Tool Co.*, 718 F.2d 1573, 1578 (Fed. Cir. 1983) (explaining that, without an injunction, "[t]he patent owner would lack much of the 'leverage,' afforded by the right to exclude, to enjoy the full value of his invention in the marketplace"). The injunction forces the parties to settle based on

market factors such as the cost of a work-around or technological alternatives.

More generally, it is ludicrous to argue, as petitioners' *amici* do, that an injunction gives NPEs or independent inventors disproportionate advantage over infringing companies. In the absence of an injunction, a well-funded infringer either would not take a license from an independent inventor at all, or would do so on a playing field that vastly favored the infringer. Together with the ability to sell their inventions to those (like *amicus* Rembrandt) best situated to obtain value for them, it is the injunction that protects independent inventors' property rights against entities that otherwise have every incentive to infringe those rights. In the end, the complaints by petitioners and their *amici* are really nothing more than a raw demand to make infringement cheaper.

II. THE PURPOSES OF THE PATENT SYSTEM WOULD BE UNDERMINED IF COURTS DISCRIMINATED AGAINST PATENT-HOLDERS ON THE BASIS OF WHETHER THEY PRODUCE A PRODUCT

A. It is a basic feature of an economy based on freely transferable private property rights that the rights do not change their character depending on whose hands they are in. Our legal system does not, for example, withhold an injunction when one landowner builds a building that encroaches on another's land simply because the other owner is an absentee landlord, or is not himself developing the property at the time of the infringement, or is renting the land to someone else.

So too in the realm of intellectual property. Yahoo and other *amici* contend that a patent-holder should be able to obtain an injunction against infringers only if the patent-holder practices or exclusively licenses the patent. In such a regime, however, the patent right would be worth far less to NPEs like *amicus* Rembrandt. And, if that were true, then the

NPEs—which, as discussed above, function as investors and intermediaries in the market for intellectual property rights—would pay inventors far less for their patents, because the NPEs' own risks and costs would be unchanged. The result is that it would be far less profitable for independent inventors to invent, and the carefully crafted scheme of incentives created by the patent system to promote progress in science and useful arts would be undermined. As the Federal Circuit has explained: "Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research." *Smith Int'l*, 718 F.2d at 1578.

The illogic of imposing a unique penalty on NPEs becomes even clearer when one considers that ordinary companies that do make or sell products frequently litigate to enforce patents that they own but do not practice. It is not at all uncommon for a large company to create or acquire patents and then not practice them.[6] The patents, for example, may be unrelated to the company's core business but serve some kind of strategic function. Or—as often happens in science—a company may do research into a chemical compound or a technology with the expectation that it will have an important application in the company's business, and then discover that the real value of the compound or technology lies in a different application altogether. The company may rationally choose to patent its discovery and license the pat-

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[6] "[B]uying and selling patents is not new. . . . Some big companies, including International Business Machines Corp., began seeking license fees from others, turning patents into a profit center." Don Clark, *Inventors See Promise in Large-Scale Public Patent Auctions*, WALL ST. J., March 9, 2006, at B1, B6 (emphasis deleted).

ent rather than enter a new line of business to exploit the discovery.

Under Yahoo's test—which would turn on "the fundamental nature of the business entity," Yahoo Br. 20—a company litigating on a patent that it does not practice could obtain an injunction, provided it makes or sells *some* products. The logical implication is that, if some large producing company were simply to buy Rembrandt's patent portfolio and then litigate based on it, the large company would get an injunction, even though the exact same portfolio in Rembrandt's hands would be protected only with money damages. This nonsensical regime would penalize NPEs, and ultimately the inventors they invest in, purely for having chosen to concentrate exclusively on an activity—patent enforcement—that large diversified entities engage in on a regular basis.

Moreover, in many industries, the "first mover"—the first entity to bring a concept to market—gains a tremendous advantage over those who reach the market later. See, *e.g.*, Jonathan M. Barnett, *Private Protection of Patentable Goods*, 25 CARDOZO L. REV. 1251, 1257-1266 (2004). If the first mover is an infringer, it may create a barrier to later entry by others who, but for the disadvantage created by *not* being the first mover, would be profitable marketers of an invention under a license from the patent-holder. The very act of entering the market with an infringing product or service may cause other entities that *would* otherwise be practicing the invention not to do so, leaving non-using patent-holders as the only possible plaintiffs. For patent-holders that are the victims of infringement but are not expert in litigation, transferring their rights to an NPE may be the only practical way to receive value for their inventions. Yet, if the approach proposed by some of petitioners' *amici* prevails, non-use will be held against the plaintiff, and the very act of transferring the patent will make injunctive relief still less likely and therefore diminish the value of the patent, leaving

such patent-holders with *no* effective way to capture the full value of their patents.

Yet another difficulty with the approach of petitioners' *amici* is that the question whether a plaintiff is practicing a patented invention is by no means a straightforward one. It can be as difficult as its mirror image, the notoriously difficult question whether an unlicensed *defendant* is practicing – and hence infringing—a patent. Adding a test of the plaintiff's use can only make patent litigation even more complicated, contentious, and costly than it already is.

In the end, any attempt to implement the unrealistic suggestion of Yahoo and other *amici* that the courts first distinguish between "legitimate companies" and "trolls," and deny injunctive relief only to the latter, is certain to violate the law of unintended consequences. To impose a unique disability on one type of actor in a fluid economy is certain to create effects, upstream and downstream from those actors, that are both unwanted and unwarranted.

B. More generally, what Yahoo and other *amici* are really demanding is that non-users be subject to a regime of compulsory licensing, one in which infringement is permitted at a price determined by a court. In the terminology of the law-and-economics literature, they are proposing that patent rights (at least as regards NPEs) be protected with a "liability rule" rather than a "property rule." See Guido Calabresi & A. Douglas Melamed, *Property Rules, Liability Rules, and Inalienability: One View of the Cathedral*, 85 HARV. L. REV. 1089 (1972).

The problem is that such a regime would make infringement less expensive than it otherwise would be, which in turn diminishes the value of the patent right and therefore discourages, *ex ante*, both invention and commercialization. See, *e.g.*, F. Scott Kieff, *Property Rights and Property Rules for Commercializing Inventions*, 85 MINN. L. REV. 697, 733-735 (2001) ("[T]he potential infringements induced by a li-

ability rule will discourage investments in the invention ex ante."); JOHN W. SCHLICHER, PATENT LAW, LEGAL AND ECONOMIC PRINCIPLES § 1:74.1 (2d ed. 2005) ("Unless the courts use the injunctive power to make a patent owner's rights exist in fact as well as in theory, the patent owner has less valuable rights to sell and an infringer will pay less for them.").

Moreover, any regime that does not award injunctive relief will generate more litigation, as companies find that it is more cost-effective to infringe, litigate, and pay whatever damages a court assesses than to buy a license, which is what an injunction forces (and the threat of an injunction encourages) the infringer to do. A regime of compulsory licensing is, almost by definition, a regime of routine infringement—and therefore routine litigation.[7]

Additionally, compulsory licensing requires that a court set the terms of the license, something private parties are in a far better position to do. As this Court recognized in a different context, "the best way to determine value is exposure to a market," not judicial guesswork. *Bank of Am. Nat'l Trust & Savings Ass'n* v. *203 N. LaSalle St. P'ship*, 526 U.S. 434, 457 (1999). That insight is just as true with respect to patent rights as with respect to other assets whose valuation is uncertain. As Judge Easterbrook, sitting by designation on a district court, explained:

> The injunction creates a property right and leads to negotiations between the parties. A private outcome of these negotiations—whether they end in a license at a particular royalty or in the exclusion of an infringer from the market—is much preferable to a ju-

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[7] Indeed, in those limited cases in which Congress has authorized compulsory patent licensing, see note 9 *infra*, litigation – or an equivalent, such as a series of administrative proceedings – is typically not only contemplated but required.

> dicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy.

In re Mahurkar Double Lumen Hemodialysis Catheter Patent Litig., 831 F. Supp. 1354, 1397 (N.D. Ill. 1993).

Private parties, unlike courts, are experts in the subject of the license and therefore tend to arrive at more accurate valuations. See Robert P. Merges, *Contracting into Liability Rules: Intellectual Property Rights and Collective Rights Organizations*, 84 CAL. L. REV. 1293, 1295-1296 (1996). Attempting to educate a court, through the use of experts, about the industry and appropriate valuation ranges tends to entail significant costs. See *id.* at 1317. Privately negotiated licenses are also more flexible than court-imposed royalties. Under a private arrangement, for example, rates and other terms can easily and quickly be adjusted over time. See *id.* at 1299. And privately negotiated licenses are far better tailored than anything a court is likely to come up with. A voluntary agreement typically has a complex fee structure, inspection provisions, sharing arrangements, and a variety of other terms apart from a straight royalty rate. A court cannot possibly duplicate these arrangements and therefore will impose an inferior bargain. See Richard A. Epstein, *Takings, Commons, and Associations: Why the Telecommunications Act of 1996 Misfired*, 22 YALE J. REG. 315, 329-330 (2005).

Finally, it is not just royalty rates and license terms that are better set by market actors than by a court. The most basic term of a licensing agreement—*whom* the patent-holder chooses to license—will be controlled by the patent-holder if the patent-holder's property rights are respected, but not if a court, by denying an injunction, allows the infringer to practice the patented invention simply by paying royalties in an amount the court deems sufficient. The patent-holder, for example, may find that it can achieve the maximum value for

its patent by granting *exclusive* rights to one licensee willing to pay a premium for exclusivity. Yet, if another party can practice the invention simply by paying court-determined damages, the purported promise of exclusivity becomes less valuable and may even become completely meaningless.[8] The grant of a patent right is supposed to leave the patent-holder, not a court or an infringer itself, with the choice whether the patent will be licensed to one licensee or to many, and to a large products company, to a small start-up, to both, or to neither. It is far better for the owner of the property right to control how it is used than to be forced to give a license to anyone willing to endure litigation.[9]

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[8] MercExchange has pointed to evidence in the record that its licensee Autotrader conditioned royalty payments on MercExchange's halting eBay's infringement. JA 493-512.

[9] Congress has imposed compulsory licensing in narrow classes of cases presenting a strong countervailing public interest. See 28 U.S.C. § 1498 (allowing a patent owner to sue for reasonable and entire compensation in the Court of Federal Claims when the federal government manufactures or uses a patented invention without a license); 42 U.S.C. § 2183 (subjecting certain kinds of patents relating to nuclear energy to licensing by the Nuclear Regulatory Commission following notice to the patent-holder and a hearing); 7 U.S.C. § 2404 (subjecting certain plant varieties to a two-year compulsory license when the Secretary of Agriculture finds it "necessary in order to insure an adequate supply of fiber, food, or feed in this country," with the remuneration a reasonable royalty, or greater if litigation is necessary to collect). This case falls in no such category.

III. THE DISTRICT COURT, IN MAKING PATENT USE THE TOUCHSTONE OF THE EQUITABLE ANALYSIS, ABUSED ITS DISCRETION BECAUSE IT IGNORED PRECEDENTS OF THIS COURT THAT CONGRESS HAS INCORPORATED INTO THE INJUNCTION STATUTE

Petitioners and their supporters have used the decision below to erect an enormous straw man. The issue in this case is not whether there should be an "automatic," "near-automatic," or "mandatory" injunction rule. Rembrandt, like respondent, readily acknowledges that district courts have some discretion in deciding what relief to grant for patent infringement. Indeed, a fair-minded reading of the court of appeals' decision—especially against the backdrop of that court's prior decisions—confirms that the court below acknowledged the role of discretion as well.

Discretion, however, is not the same thing as unfettered decision-making. As this Court recently explained: "Discretion is not whim, and limiting discretion according to legal standards helps promote the basic principle of justice that like cases should be decided alike." *Martin* v. *Franklin Capital Corp.*, 126 S. Ct. 704, 710 (2005). The question in this case is not whether the district courts have discretion but what legal standards inform and limit that discretion.

A. A crucial, well-settled standard is that the way in which a patent-holder chooses to exploit his invention—or not exploit it—is not a factor weighing for or against injunctive relief for infringement. As Judge Bryson's opinion for the court of appeals correctly explained: "Injunctions are not reserved for patentees who intend to practice their patents, as opposed to those who choose to license. The statutory right to exclude is equally available to both groups, and the right to an adequate remedy to enforce that right should be equally available to both as well." Pet. App. 27a.

Above we have shown that this rule follows from sound economic principles. We now show that the rule, after being articulated in *Continental Paper Bag* and repeatedly reaffirmed by this Court, was ratified by Congress when it enacted 35 U.S.C. § 283 and its predecessors. Whatever discretion is conferred by 35 U.S.C. § 283, therefore, is cabined by the *Continental Paper Bag* rule.

1. *Continental Paper Bag* holds that, under the predecessor to 35 U.S.C. § 283,[10] one who is not using his patent is no less entitled to injunctive relief than one who is. (By "using," the Court's opinion meant *either* practicing or licensing. See 210 U.S. at 427-428.) The decision has been repeatedly reaffirmed. See *Hartford-Empire Co.* v. *United States*, 323 U.S. 386, 432-433 & n.25 (1945); *Special Equip. Co.* v. *Coe*, 324 U.S. 370, 378-379 (1945); *Woodbridge* v. *United States*, 263 U.S. 50, 55-56 (1923); see also *Crown Die & Tool Co.* v. *Nye Tool & Machine Works*, 261 U.S. 24, 34-35 (1923). As some of petitioners' *amici* note, the Court in *Continental Paper Bag* took care to stop short of holding that a court of equity must *always* issue an injunction in a case of infringement. But petitioners misleadingly suggest that *Continental Paper Bag* left open the possibility that injunctive relief could be denied specifically because the patent-holder does not practice the invention. Pet. Br. 43; see also Yahoo Br. 19-20 (implying that the case paves the way for an analy-

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[10] The injunction statute in force at the time of *Continental Paper Bag* is not materially different from the modern text, which was adopted in 1952. In 1908, the statute read:

> The several courts vested with jurisdiction of cases arising under the patent laws shall have power to grant injunctions according to the course and principles of courts of equity, to prevent the violation of any right secured by patent . . . .

Act of Mar. 3, 1897, ch. 391, § 6, 29 Stat. 692, 694. The 1952 version—the current one—was designed to be "the same" as this provision "with minor changes in language." See p. 22, *infra*.

sis that discriminates between NPEs and "legitimate" companies).

The decision does no such thing. First of all, it makes clear that an injunction is the preferred remedy for infringement, without regard to use: "exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive." 210 U.S. at 429. Moreover, entirely missing from the description of *Continental Paper Bag* delivered by petitioners and their *amici* is the Court's review of a set of possible reasons for non-use that *were conceded to have no effect on the availability of injunctive relief.* The Court observed: "[the defendant's] counsel concedes indulgence to a nonuse which is 'nonchargeable to the owner of the patent'—as lack of means, or lack of ability or opportunity to put the patent to use." *Id.* at 422. In other words, in *Continental Paper Bag*, the Court *and the infringer* took it for granted that a patent-owner without the funds, know-how, or access to commercialize the invention *is no less entitled to an injunction than someone actively practicing the patent.*

Continental Paper Bag, far from leaving open the question whether a non-practicing patent-holder is presumptively entitled to injunctive relief, illustrates that the case of the independent inventor who needs an injunction to protect his rights—the precise type of party whose interests are aligned with and furthered by NPEs—was well known to the law long before that decision issued. The case creates absolutely no basis for denying injunctive relief to NPEs simply because they and their predecessors-in-interest do not practice the patents that they enforce.

2. This Court should not overrule *Continental Paper Bag*. Not only, as we show above, is the decision supported by sound economic principles, but Congress has ratified the decision. In general, "[c]onsiderations of *stare decisis* have

special force in the area of statutory interpretation" because Congress remains free to overrule the Court's decisions. *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 172-73 (1989). In this case, however, Congress' treatment of the precedent in question drives considerations of *stare decisis* to their absolute apex.

When Congress reenacts a statute that has "been given a consistent judicial interpretation," the reenactment "generally includes the settled judicial interpretation." *Pierce* v. *Underwood*, 487 U.S. 552, 567 (1988) (citing *Lorillard* v. *Pons*, 434 U.S. 575, 580-81 (1978)); accord *Keene Corp.* v. *United States*, 508 U.S. 200, 212 (1993); see also *Granholm* v. *Heald*, 125 S. Ct. 1885, 1910-1911 (2005) (Thomas, J., dissenting); *Faragher* v. *City of Boca Raton*, 524 U.S. 775, 792, 804 n.4 (1998). The presumption is especially applicable "where Congress was aware of or made reference to that judicial construction." *Metro. Stevedore Co.* v. *Rambo*, 515 U.S. 291, 299 (1995); see also *Lindahl* v. *Office of Pers. Mgmt.*, 470 U.S. 768, 782-83 (1985); cf. *Brown* v. *Gardner*, 513 U.S. 115, 121 (1994) (finding reenactment principle inapplicable because "the record of congressional discussion preceding reenactment makes no reference to" the administrative interpretation in question, "and there is no other evidence to suggest that Congress was even aware of the [agency]'s interpretive position").

Moreover, this Court will afford additional deference to administrative or judicial interpretations of a statute when there is ample evidence—usually in the form of hearings and rejected proposals—of acquiescence in the interpretation. See *Solid Waste Agency of N. Cook County* v. *U.S. Army Corps of Engineers*, 531 U.S. 159, 169-170 & n.5 (2001); *FDA* v. *Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 144-159 (2000) (extensive review of legislative history, including bills that were considered and rejected, to demonstrate that Congress had ratified an agency's interpretation of a statute); *Bob Jones Univ.* v. *United States*, 461 U.S. 574, 599-602

(1983); see also *Dep't of the Interior* v. *Klamath Water Users P. otective Ass'n*, 532 U.S. 1, 16 n.7 (2001) (finding support for an interpretation in the fact that Congress twice considered, and rejected, a different approach).

All of these principles compel the conclusion that a district court, in deciding whether to issue an injunction for patent infringement, must be faithful to *Continental Paper Bag* and its progeny. First of all, Congress three times since 1908 has reenacted the injunction provision with identical or substantially similar language—once in 1922, again in 1946, and most recently in 1952. See 35 U.S.C.A. § 283 (West 2006). The first two reenactments left the statute identical in relevant respects to the version in effect in 1908. See Act of Aug. 1, 1946, Pub. L. No. 79-587, ch. 726, 60 Stat. 778; Act of Feb. 18, 1922, Pub. L. No. 67-147, ch. 58, § 8, 42 Stat. 389, 392. In 1952, Congress comprehensively recodified the patent statutes. Section 283, the injunction provision, was part of that effort; it was supposed to be the "same" as its predecessor "with minor changes in language." S. REP. NO. 82-1979 (1952), *reprinted in* 1952 U.S.C.C.A.N. 2394, 2422-2423. During this same period, this Court alone reaffirmed *Continental Paper Bag* at least three times. See p. 19, *supra*. Because the case and its progeny authoritatively construe the relevant versions of the injunction statute, they must be understood as included in each of the three reenactments.

Moreover, as a study commissioned by the Senate Judiciary Committee's Subcommittee on Patents, Trademarks, and Copyrights ("Patents Subcommittee") observed in 1956: "Ever since the Paper Bag decision in 1908, permitting a patentee to enforce his patent even though he was not himself using the invention, recurrent compulsory licensing proposals have been presented to Congress." PATENTS SUBCOMM., 85TH CONG., COMPULSORY LICENSING OF PATENTS—A LEGISLATIVE HISTORY III (Comm. Print 1958) (hereinafter COMPULSORY LICENSING). Indeed, bills to implement compulsory licensing for non-users were introduced—and went no-

where—at least *twenty-three times* between *Continental Paper Bag* and 1952. See *id.* at 2-15 (cataloguing failed proposals in 1911, 1912, 1913, 1914, 1915, 1921, 1922, 1926, 1927, 1929, 1931, 1933, 1935, 1938, 1942, and 1950).[11]

Throughout this period, usually in connection with failed proposals, Congress conducted detailed examinations of the subject of compulsory licensing. In 1912, the House Committee on Patents divided over whether to report favorably on a compulsory licensing bill. The majority was in favor because it was concerned that there was a common practice of "suppressing patents"—in other words, buying them up and not using them. The majority's prime illustration was *Continental Paper Bag*: "The best known instance in the reports of suppression of a patent to prevent competition is the so-called Paper Bag Patent." H.R. REP. NO. 62-1161, at 5 (1912).

The committee minority, however, won the day—no further action was taken on the bill—and the arguments it advanced are just as compelling today. The minority complained that the majority's views were not supported by

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[11] The bills included H.R. 8776, 62d Cong. (1911); S. 2116, 62d Cong. (1911); H.R. 23193, 62d Cong. (1912); S. 6273, 62d Cong. (1912); H.R. 23417, 62d Cong. (1912); H.R. 1700, 63d Cong. (1913); H.R. 15989, 63d Cong. (1914); H.R. 19188, 63d Cong. (1914); H.R. 3054, 64th Cong. (1915); H.R. 3082, 64th Cong. (1915); S. 1838, 67th Cong. (1921); S. 3325, 67th Cong. (1922); S. 3410, 67th Cong. (1922); S. 3474, 69th Cong. (1926); S. 705, 70th Cong. (1927); S. 203, 71st Cong. (1929); S. 22, 72d Cong. (1931); S. 290, 73d Cong. (1933); S. 383, 74th Cong. (1935); H.R. 9259, 75th Cong. (1938); H.R. 10068, 75th Cong. (1938); S. 2491, 77th Cong. (1942); H.R. 9304, 81st Cong. (1950).

Three of the bills—H.R. 8776, 62d Cong. (1911); S. 2116, 62d Cong. (1911); and H.R. 9259, 75th Cong. (1938)—would have implemented compulsory licensing across the board, and not merely in cases of non-use.

the twenty-seven public hearings that had been held on the legislation, in which the overwhelming majority of the witnesses (including Thomas Edison) registered opposition to any kind of compulsory licensing. H.R. REP. NO. 62-1161, Pt. 2, at 5-6 (1913) (hereinafter Minority Report); see also COMPULSORY LICENSING 3-5. The minority contended that there was no real problem of patent suppression: "[*Continental Paper Bag*] is in fact the only instance [of patent suppression] which the majority has succeeded in citing." Minority Report 4.

The minority also argued that "the compulsory-license laws would reduce the value of patents, and would therefore, at least to some extent, reduce the encouragement now held out to invention and industrial development." It argued that determining whether the plaintiff is using the invention would be as complex and difficult as determining infringement and would therefore greatly increase litigation costs. And it argued that courts are ill suited to making and adjusting royalty determinations, and that the extra proceedings contemplated by the legislation would confer a "great advantage" on "the large corporations equipped with their great resources to stand the expense and meet the difficulties involved." Minority Report 6-8.

The following year, the Committee on Patents considered a compulsory licensing bill nearly identical to the one reported in 1912. The committee again held hearings—in which witnesses again generally opposed compulsory licensing—and again unsuccessfully recommended the bill. See COMPULSORY LICENSING 6; H.R. REP. NO. 63-1082 (1914). In 1921 and 1922, bills were introduced that would have provided for compulsory licensing in cases of non-use. The Senate Committee on Patents held hearings, but no further action was taken. COMPULSORY LICENSING 7.

In 1938, bills that would have implemented across-the-board compulsory licensing were introduced. Once again,

extensive hearings were held—this time before the Subcommittee on Compulsory Licensing of the House Committee on Patents—and once again there was near-unanimous opposition to the legislation. See COMPULSORY LICENSING 9-11. One of the major arguments was that the bill would have hurt small business, which would be forced to license patents to large corporations with greater resources. *Id.* at 10.

Three years later, Congress held extensive hearings to investigate the concentration of industrial power. The resulting report and recommendation, which included some discussion of patents, advocated "legislation [making] any future patent . . . available for use by anyone who is willing to pay a fair price for the privilege." TEMPORARY NAT'L ECON. COMM., FINAL REPORT AND RECOMMENDATION, S. DOC. NO. 77-35, at 36 (1st Sess. 1941). That proposal, too, was never adopted.

Finally, when Congress undertook the comprehensive revision of the patent laws that culminated in the 1952 recodification, it considered—but rejected—a proposal for compulsory licensing. See *Dawson Chem. Co.* v. *Rohm & Haas Co.*, 448 U.S. 176, 215 n.21 (1980).

The issue of compulsory licensing did not entirely disappear, however. Congress thoroughly studied the issue in the 1950s and ultimately decided to do nothing about it. A 1956 report of the Patents Subcommittee entitled "Review of the American Patent System" described compulsory patent licensing as "one of the most controversial subjects in the patent field." S. REP. NO. 84-1464, at 11 (1956). A 1957 study, citing *Continental Paper Bag* for the proposition that "[t]he present patent grant imposes no duty on its owner to bring the invention into use," advocated compulsory licensing but noted the difficulty of determining a reasonable royalty. PATENTS SUBCOMM., PROPOSALS FOR IMPROVING THE PATENT SYSTEM, S. DOC. NO. 85-21, at 17 & n.47, 27-28 (1st Sess. 1957). Another 1957 study discussed *Continental Pa-*

per Bag and *Special Equipment Co.*,[12] argued that the supposed connection between injunctive relief and the suppression of invention is a myth, and opposed compulsory licensing of any kind because it would destroy the value of patent rights and impair newcomers' and small manufacturers' incentives for invention, competition, and development. PATENTS SUBCOMM., THE PATENT SYSTEM AND THE MODERN ECONOMY, S. DOC. NO. 85-22, at 28-33 & nn.108, 109 (1st Sess. 1957). A 1958 study analyzed the issue from the standpoint of economics, but did not issue a recommendation either way. PATENTS SUBCOMM., 85TH CONG., AN ECONOMIC REVIEW OF THE PATENT SYSTEM 13-14, 73-74 (Comm. Print 1958).

Taken together, the reports, hearings, and failed legislation furnish "overwhelming evidence," *Solid Waste Agency of N. Cook County* v. *U.S. Army Corps of Engineers*, 531 U.S. 159, 170 n.5 (2001), that (a) Congress was aware of *Continental Paper Bag*, (b) some Members were dissatisfied with the decision, but (c) throughout roughly the first half of the last century, the legislature never saw fit to disturb this Court's construction of the injunction provision even as it repeatedly reenacted the statute.[13] Cf. *FDA* v. *Brown & Wil-*

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[12] *Special Equip. Co.* v. *Coe*, 324 U.S. 370 (1945). Petitioners (Br. 42 n.14) and several of their *amici* cite with approval Justice Douglas's dissent in that case. Justice Douglas urged the principles that were followed by the district court in this case, but those are the same principles that Congress and this Court have repeatedly rejected.

[13] The pattern continues to the present day. Only last year, the House Judiciary Committee considered but rejected a proposal to direct judges to take use into account in determining whether to grant an injunction. See *Committee Print Regarding Patent Quality Improvement: Hearing Before the Subcomm. on Courts, the Internet, and Intell. Prop. of the H. Comm. on the Judiciary*, 109th Cong. (2005). Although a version of the proposed legislation re-

liamson Tobacco Corp., 529 U.S. 120, 144-159 (2000); *Bob Jones Univ. v. United States*, 461 U.S. 574, 599-602 (1983).

Accordingly, it is far too late in history to argue that 35 U.S.C. § 283 permits a district court judge to deny injunctive relief because the patentee does not practice its invention.

3. If, despite all this, the Court for some reason now questions *Continental Paper Bag*, this case should not be used as an occasion to overrule it. MercExchange's attempts to practice its patents in the marketplace, as well as eBay's own evidence claiming a cheap way to "work around" the patents, make this case a particularly poor vehicle for demonstrating any difficulties with the *Continental Paper Bag* rule. Cf. *Patterson* v. *McLean Credit Union*, 491 U.S. 164, 173-174 (reviewing criteria for overruling a statutory decision). The *amicus* brief of the intellectual property professors submitted in support of the petition for certiorari, for instance, attempts to show that the traditional presumption in favor of injunctions is unworkable, but it relies on hypothetical examples far removed from the facts of this case. Indeed, the brief actually confesses that the professors have no "opinion on how the application of the traditional equitable factors would actually come out in this case." Lemley et al. Cert.-Stage Br. 6. It would be an unwise departure from judicial restraint to assess how strong the presumption in favor of injunctions should be in the abstract, let alone to consider overruling firmly rooted statutory decisions of this Court, based on the facts of cases other than this one.

B. The court of appeals correctly held that the district court abused its discretion. In denying MercExchange an injunction because it seeks to license rather than practice its inventions, the district court ran afoul of *Continental Paper Bag*, which leaves no room for such distinctions.

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mains pending, the relevant section no longer directs judges to take use into account. See H.R. 2795, 109th Cong. § 7 (2005).

The district court believed that MercExchange would suffer little harm without an injunction because the company "exists solely to license its patents or sue to enforce its patents, and not to develop or commercialize them." Pet. App. 58a. But the same could be said of independent inventors, corporations like Qualcomm, and the technology transfer programs at research universities. They, too, exist to license their inventions—and to sue when necessary to enforce their rights. But it is hardly true that they would suffer no harm if a district court denied them injunctive relief for infringement. Unless an injunction is available and both parties know it, licensing negotiations would end in litigation and a compulsory license whenever the potential licensee decides that it does not like the potential licensor's price. For all the reasons discussed above, the market, not a court, should be allowed to determine the royalty rates and terms.

The district court also believed that "the public does not benefit from a patentee who obtains a patent yet declines to allow the public to benefit from the inventions contained therein." Pet. App. 57a. Not only does this mischaracterize the realities of this case—MercExchange, like NPEs, seeks to license its intellectual property, not hide it from the world—it fundamentally misconceives the nature and function of the patent system. As this Court has explained, describing the *Continental Paper Bag* decision:

> *[T]he benefit which the government intended to secure* [with the patent grant] *was not the making or use of the patent for the benefit of the public during the 17 years of the grant*, except as the patentee might voluntarily confer it from motives of gain, *but only the benefit of its public use after the grant expired.*

Crown Die & Tool Co. v. *Nye Tool & Machine Works*, 261 U.S. 24, 34-35 (1923) (emphasis added). Like so many of petitioners' *amici*, the district court failed to appreciate that the public benefits from an inventor's disclosure whether or

not the inventor immediately implements the invention. In fact, as a general matter, there is no reason to believe that, without the patentee's disclosure, the invention would have been known to the defendant before the expiration of the patent term.

Because the district court violated basic principles of patent protection set forth in *Continental Paper Bag* and effectively approved by Congress as part of the injunction statute, the court's decision was an abuse of discretion. The court of appeals was correct to reverse it.

IV. THE ATTACKS ON NON-PRACTICING ENTITIES LEVELED BY PETITIONERS AND THEIR *AMICI* ARE REALLY A CALL TO LEGISLATE ON ISSUES NOT PRESENTED BY THIS CASE

Petitioners and their *amici* level a number of criticisms at NPEs and the patent system generally that are not appropriate for judicial resolution and, even if they were, concern issues not presented by this case. Petitioners and their *amici* are concerned by what they say are vague or low-quality patents, as well as by the supposed difficulty of knowing whether a product or service will infringe any patents. But this is not a case about patent validity or infringement. eBay has been adjudicated a willful infringer of MercExchange's valid patents, and those findings are not challenged here. This is a case about remedies. The courts and the patent office have many tools for dealing with patents that are asserted to fall short of the statutory standards for patentability, but tinkering with the remedy is not—and never should be—one of them. This Court should resist the call to use this case as an excuse to fix supposed problems that the case does not even present. More generally, policy-based complaints about any systemic problems with the quality or scope of patents ought to be addressed to the Executive or Legislative Branch, not this Court.

Similar considerations dispose of the policy arguments of petitioners' *amici* about the complexity and interconnectedness of products and services and the supposed accompanying potential for "hold-up." Here, eBay has long had notice of MercExchange's patents, has had every opportunity either to take a license to them or "design around" them, and has claimed that a "work-around" would cost only $8,000. Thus the arguments about the difficulty of reengineering ring utterly hollow on the facts before the Court. Petitioners' *amici* also complain that NPEs, unlike practicing enterprises, are not subject to the inhibiting effect of the threat of a counter-suit. This, too, is a naked policy argument of the kind best addressed to the legislature. The presumption in favor of injunctions in the patent context, as in real property law, has never turned on so-called "mutually assured destruction."

CONCLUSION

The judgment of the court of appeals should be affirmed.

Respectfully submitted.

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